



REVIEW OF CAPITAL PROJECT CASH FLOW REQUIREMENTS

FISCAL YEAR 2016

Auditor of Public Accounts
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EXECUTIVE SUMMARY

This is the Auditor of Public Accounts' third annual report to satisfy Chapter 806 of the 2013 Acts of Assembly (Chapter 806) requirement to report on the adherence to the cash flow requirements for each project within Chapter 806 and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.

The capital project cash flow requirements process is effective. The only project funded by the Central Capital Planning Fund was a Chapter 2 of the 2014 Acts of Assembly (Chapter 2) project, which is outside the scope of our audit; therefore, we did not review its timing. The Department of Planning and Budget's (Planning and Budget) processing time for CO-2s improved in fiscal year 2016 with only 20 percent of CO-2s taking longer than 60 days, while in fiscal year 2015, 53 percent of CO-2s processed for Chapter 806 projects took longer than 60 days. The Six-Year Capital Outlay Advisory Committee (Advisory Committee) did not meet quarterly during fiscal year 2016; however, there is a process in place to advance projects between meetings that prevented any delays. The Departments of Planning and Budget, General Services, and the Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit. The Department of Accounts (Accounts) is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely based on Planning and Budget's request.

We have the following recommendations:

- To determine if the Central Capital Planning Fund is currently funded at a level that can handle the future volume of capital projects, Planning and Budget should do an analysis of upcoming projects that will need planning funds and their estimated timing to determine if there is adequate funding available within the Central Capital Planning Fund. If the analysis determines funding to be inadequate, Planning and Budget could make a recommendation to the General Assembly for how much the fund needs to prevent delays due to the availability of planning funds.
- Agencies need to ensure that they process the BEX (transaction to execute an appropriation change within the budget and financial systems) to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

The Chapter 806 funding limit of \$250 million reached its final step in July of 2016. Therefore, we will consider the reporting on cash flow delays within this Chapter to be complete, and going forward, the Auditor of Public Accounts will begin to report on the funding limit set out within Chapters 759 and 769 of the 2016 Acts of Assembly (hereinafter referred to only as Chapter 769 projects).

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INTRODUCTION

Chapter 806 of the 2013 Acts of Assembly states, “the Auditor of Public Accounts shall report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects.” This report reviews the capital projects funded in Chapter 806, Item C-39.40 and their related cash flows. The main objectives of this report are to:

- Obtain a thorough understanding of the changes in the capital project cash flow requirements process and determine whether the changes are effective.
- Determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects.
- Determine if the Advisory Committee is meeting quarterly to evaluate capital projects.
- Determine if the Departments of Planning and Budget, General Services, and the Treasury have changed their monitoring process of the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit.
- Determine if Planning and Budget is timely reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects.
- Determine if Accounts is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely.

The Auditor of Public Accounts issued its first annual report on this topic in January 2015 titled, [*Review of Capital Project Cash Flow Requirements*](#) (2014 Cash Flow Report) and the second annual report in January 2016 titled, [*Review of Capital Project Cash Flow Requirements*](#) (2015 Cash Flow Report). The previous Cash Flow Reports provide a description of the cash flow processes as well as reports on timing delays. The Auditor of Public Accounts issued a report in January 2014 titled, [*Review of Capital Outlay Funding and Cash Flow Processes*](#). The January 2014 report provides a description and history of the capital project pooled approach and the Advisory Committee.

The focus of the third annual report will be the cash flow processes established around the Chapter 806 project pool and any changes to the process during fiscal year 2016. We included not only projects funded under item C-39.40, but also projects funded for pre-planning and detailed planning under item C-39.05 for Chapter 806 and other Acts of Assembly since 2013, since the timing and availability of planning funds are significant to the entire pool process. We further narrowed the scope of this report by primarily reviewing project activity within fiscal year 2016. The 2014 Cash Flow Report discussed the central cash flow processes in detail; therefore, this report will focus mainly on delays within the processes that affect the timing of capital projects since the cash flow processes have not changed since the last report.

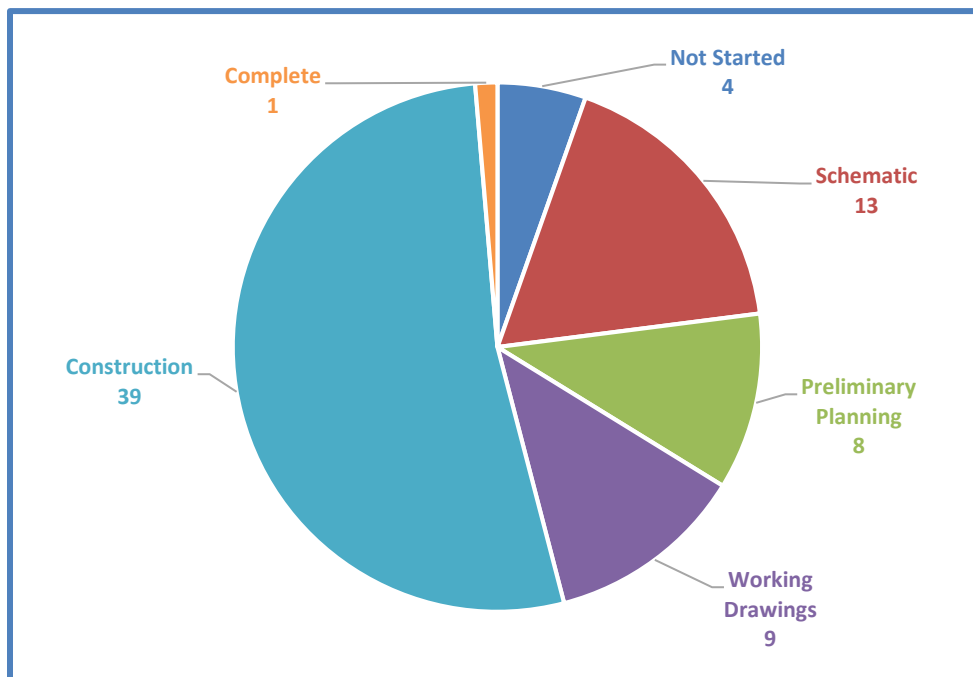
This report will also briefly discuss the Auditor of Public Accounts' reporting requirements under Chapter 769, enactments 10 and 11. There is an annual funding limit similar to Chapter 806, Item C-39.40 that will take effect in fiscal year 2017, and a requirement to determine if the governor has taken certain actions before funding for certain capital projects within Chapter 769 can be released.

We conducted interviews with personnel at the Department of General Services (General Services) and Planning and Budget. We attended the quarterly meetings of the Advisory Committee. We performed analysis of the timing of various steps within the capital project cash flow process. We tested for compliance with Item C-39.40 of Chapter 806.

Currently there are 74 projects in the Chapter 806 pools. As of June 30, 2016, nine projects have completed detailed planning (in working drawings) and 39 projects have started construction. See [Appendix A](#) for a listing of all projects and their status. Chart 1 shows all projects within the three Chapter 806 pools and their relative status:

Project Status Across All Chapter 806 Pools

Chart 1



Source: General Service's project listing of Chapter 806 projects

BACKGROUND

The 2014 and 2015 Cash Flow Reports identified several processes that are imperative to the proper planning, timing, and delivery of bond proceeds to fund capital projects. These processes take place in various agencies and can be general processes used for all capital projects or specific processes created to address Chapter 806 reporting items. The 2014 Cash Flow Report addressed the essential processes to allow project approval to progress from planning to construction including funding at various phases. These processes are broken down into two independent but interrelated categories of Capital Project Processes and Capital Funding Processes. For the purposes of this report, detailed descriptions of the specific capital outlay processes will not be repeated since there have been no changes to the process.

The previous Cash Flow Reports found the capital project cash flow requirements process was effective; however, projects experienced occasional delays in obtaining planning funds from the Central Capital Planning Fund, getting approval to move to construction from the Advisory Committee, and getting approval to access construction funding. There were improvements from fiscal year 2014 to 2015 with communication between agencies, which resulted in fewer timing delays. Agencies were submitting cash flow requirements to the Department of the Treasury (Treasury) through Planning and Budget for determining bond issuance timing while General Services used GCPay to forecast cash flow needs for the Advisory Committee. General Services and Treasury use different processes because Treasury has to consider cash flow needs of all capital projects not just Chapter 806 projects. Both processes are effective and have not resulted in any delays. Planning and Budget, General Services, and Treasury were monitoring the \$250 million annual debt limit, and as of June 30, 2015, Chapter 806 capital project expenditures had not exceeded the limit.

STATUS OVERVIEW

Capital projects follow three basic steps, or phases, which include: Pre-planning, Detailed Planning, and Construction.

Pre-planning phase is the process meant to define the scope of the project and provide detailed definition and cost estimates. Pre-planning generally includes a statement of program definition, space requirements, estimates of gross and net square footage, and preliminary site analysis. General Services and agencies work together to develop a cost estimate during pre-planning to include total cost of the project, construction costs, cost per square foot, costing methodology, and any factors that are unique that may impact the total project cost.

Detailed planning phase includes the preparation of architectural and engineering documents up to the preliminary design stage. These documents are the basis of BCOM's cost review as part of the pool funding process.

Construction phase includes the preparation of final working drawings and specifications, advertising for a sealed bid or proposal, awarding a contract pursuant to law, and construction of a project until completion.

Within the pool-funded project approach, there are three funds; the Central Capital Planning Fund, the State Agency Capital Account, and the Public Educational Institution Capital Account. The Central Capital Planning Fund is a revolving fund that provides planning funds for projects in the pre-planning and detailed planning pools. The two Capital Accounts form the basis of the construction pools and are replenished by additional bond appropriations as more projects receive approval for construction. All pool-funded projects should flow through one of these two construction accounts. A project authorized for Virginia Public Building Authority (VPBA) Bonds uses the State Agency Capital Account. Alternatively, a project authorized for Virginia College Building Authority (VCBA) Bonds uses the Public Educational Institution Capital Account. To date, the General Assembly has created construction pools with VPBA and VCBA funded projects combined in one pool.

Planning Funds

The Central Capital Planning Fund is vital for the start of capital projects. There are two stages to planning: Pre-planning and Detailed Planning. Planning funds can come from a few different sources. An agency may use funds from the Central Capital Planning Fund or their own non-general funds to complete pre-planning. In addition, projects placed directly into the construction pool with no prior planning can use bond money for planning purposes.

Agencies, and to a lesser extent institutions, cannot start the planning phase of a capital project without funding from the Central Capital Planning fund. If this fund does not have adequate resources, then projects stall in the pre-planning or detailed planning phase, waiting for other projects to move to construction and reimburse the Central Capital Planning Fund. In addition to using the Central Capital Planning Fund, agencies and institutions may request authority and appropriation to conduct pre-planning and detailed planning using non-general fund sources.

However, many state agencies lack the non-general fund resources to bypass the Central Capital Planning Fund.

The Central Capital Planning Fund is reimbursed for planning funds when a project receives its appropriation for construction funding. For Chapter 806 projects, once an agency has completed detailed planning, the project cost is reviewed by the Bureau of Capital Outlay Management (BCOM) and approved by the General Services Director. This review and approval results in a Funding Report, which outlines the approved project budget and associated fund sources. The agency then submits a CO-2 based upon the funding report to BCOM. BCOM approves the CO-2 along with a graph of the projected cash flow and forwards the CO-2 to Planning and Budget for approval.

Planning and Budget coordinates with the Advisory Committee for evaluation against the \$250 million annual limit. Once the Advisory Committee reviews and approves the project to move to construction, Planning and Budget processes the appropriation transfer for construction. At this point, the funds are available to reimburse the Central Capital Planning Fund. Planning and Budget has to request that Accounts process the transaction that transfers the cash between the agency's construction fund and the Central Capital Planning Fund. However, depending on circumstances, Planning and Budget may not send a request to Accounts after each project receives its appropriation. Rather they may wait until they have a batch of projects and then send a request to Accounts. Projects approved in Appropriation Acts other than Chapter 806 and Chapter 769 go through the Advisory Committee, but do not require the same level of monitoring and additional procedures as a result of imposed cash flow limits.

At the beginning of fiscal year 2016, 99 percent of the Central Capital Planning Fund resources were in use planning seven Chapter 806 projects and five additional projects primarily from Chapters 2 and 769 as detailed in Table 1.

Central Capital Planning Fund Activity
(as of July 1, 2015)

Table 1

Beginning Year Cash Balance					\$	95,704
Funds in Use						
DCR	17589	Ch. 806	Construct Powhatan State Park, Phase I		548,307	
WWRC	17975	Ch. 806	Renovate Dining Hall and Activities Building, Phase II		360,098	
VCCS	17989	Ch. 806	Renovate Reynolds Academic Building, Loudoun Campus, Northern Virginia		447,181	
VCCS	17991	Ch. 806	Replace Anderson Hall, Virginia Western		572,710	
VIMS	17993	Ch. 806	Construct Consolidated Scientific Research Facility		411,719	
VSDB	18069	Ch. 806	Renovate Main Hall		1,356,467	
FCM	18073	Ch. 806	Construct Early American Industry Exhibits		191,313	
DCR	18159	Ch. 2 & 769	Renovate Historic Buildings, Walnut Valley Farm, Chippokes Plantation State Park		473,975	
WWRC	18160	Ch. 2 & 769	Renovate and Expand Anderson Vocational Training Bldg., Phase 2		983,000	
DBVI	18164	Ch. 2	Renovate the departmental headquarters building		413,876	
DBHDS	18166	Ch. 2 & 769	Expand Sexually Violent Predator Facility		5,794,000	
DFS	18167	Ch. 2 & 769	Expand Central Forensic Laboratory & Office of the Chief Medical Examiner Facility		3,500,000	
Total Central Capital Planning Fund					\$15,148,350	

Source: Commonwealth Accounting and Reporting System

During fiscal year 2016, there were no new Chapter 806 projects funded by the Central Capital Planning Fund. Since most Chapter 806 projects have been funded for planning, the Central Capital Planning Fund began funding Chapter 2 projects in 2015, and funded one additional Chapter 2 project in 2016. At the end of fiscal year 2016, the Central Capital Planning fund only had an available cash balance of \$1,112,828, as noted in Table 2. The lack of available planning funds is likely to cause timing delays moving forward for any project relying on the Central Capital Planning Fund for planning funds.

Central Capital Planning Fund Activity
(July 1, 2015, through June 30, 2016)

Table 2

Cash Balance, July 1, 2015				\$ 95,704
Recoveries:				
DCR	17589	Chapter 806	Construct Powhatan State Park, Phase I	548,307
VIMS	17993	Chapter 806	Construct Consolidated Scientific Research Facility	411,719
WWRC	17975	Chapter 806	Renovate Dining Hall and Activities Building, Phase II	360,098
Total Recoveries:				1,320,124
Transfers to new projects:				
DOC	18168	Chapter 2	Renovate Buckingham Wastewater Treatment Plant	303,000
Cash Balance, June 30, 2016				\$ 1,112,828

* Chapter 2 of the 2014 Acts of Assembly

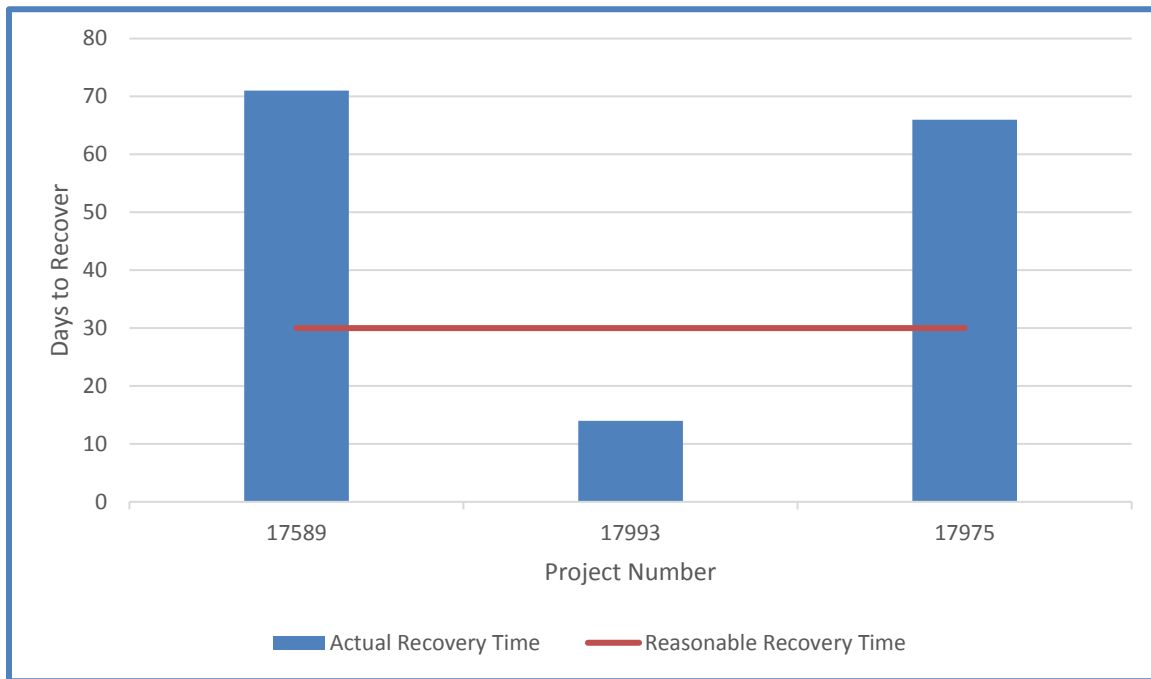
Source: Commonwealth Accounting and Reporting System

During fiscal year 2016, Planning and Budget recovered \$1.3 million from agencies for three Chapter 806 projects and transferred \$0.3 million to one agency for a Chapter 2 project. Recoveries in fiscal year 2016 dropped from \$7.5 million to \$1.3 million, or 82 percent. Transfers dropped from \$11.2 million in fiscal year 2015 to \$0.3 million in fiscal year 2016, or 97 percent. The drop in recoveries during fiscal year 2016 was due to the timing and nature of the projects currently funded by the Central Capital Planning Fund. Several large projects, as seen in Table 1, are currently using planning funds and for \$11.1 million of the funds in use, the agencies just received the funds in the last few months of fiscal year 2015.

Once these projects reach the construction phase, there will be a higher inflow of resources that can be transferred back out to fund planning for new projects. There were delays in recovery time for these projects. We consider recovery time to be the days it took from the time a project had a CO-2 approving construction funding to the time the funds were transferred to reimburse the Central Capital Planning Fund. As seen in Chart 2, the recovery time ranged from 14 days to 71 days with the average recovery time of planning funds being 50 days. We consider 30 days to be a reasonable recovery time. The average recovery time improved from 127 days in fiscal year 2015 to 50 days in fiscal year 2016.

Central Capital Planning Fund Recovery Time Chapter 806 Projects

Chart 2



Source: Fiscal year 2016 CO-2 Forms from Building Information Tracking System (BITS) for Chapter 806 projects
Commonwealth Accounting and Reporting System

During fiscal year 2016, since only one project received funds from the Central Capital Planning Fund and it is not a Chapter 806 project, we did not review the funding for delays. There are only four projects remaining under Chapter 806 that have not started planning and could potentially need funds from the Central Capital Planning Fund. However, unless the General Assembly provides separate planning funds for particular projects like the funds provided in 2015 discussed below, the Central Capital Planning Fund will fund the preliminary and detailed planning for future capital projects. The potential timing delays in funding new projects could have a negative effect on projects from a project planning perspective all the way to a project's operating purpose. For example, if a project is delayed in the detailed planning phase, two to three months could mean the difference between a project being ready for construction in the fall versus winter, which could cause further delays due to weather. A project could also face higher costs than originally planned due to rising construction costs. However, during the recession, delays in planning projects often resulted in greater cost savings as competition for projects was greater.

Chapter 665 of the 2015 Acts of Assembly, Item C-44 appropriated \$14,250,000 of general funds for detail planning for fiscal year 2016. However, the language says that the projects listed would be funded from funds in the Central Capital Planning Fund and any general funds appropriated. Based on that language, it appears that the General Assembly did not intend to deposit the general funds in the Central Capital Planning Fund, but instead directed the funds for

planning those specific projects. This prevented the planning costs for these general funded projects from becoming debt funded. However, it did not help with the lack of funds available in the Central Capital Planning Fund for future projects that need planning funds.

Observation

As of June 30, 2016, there are only four Chapter 806 projects that have not started planning. During 2016, there were no new Chapter 806 Projects funded by the Central Capital Planning Fund. The Central Capital Planning Fund provides funding for all capital projects, not just those set out in Chapter 806. Unless the General Assembly provides separate planning funds for particular projects, the Central Capital Planning Fund will fund the preliminary and detailed planning for future capital projects.

Recommendation #1

To determine if the Central Capital Planning Fund is currently funded at a level that can handle the future volume of capital projects, Planning and Budget should do an analysis of upcoming projects that will need planning funds and their estimated timing to determine if there is adequate funding available within the Central Capital Planning Fund. If the analysis determines funding to be inadequate, Planning and Budget could make a recommendation to the General Assembly for how much the fund needs to prevent delays due to the availability of planning funds.

Construction

At the conclusion of detailed planning, the Advisory Committee reviews all Chapter 806 projects to determine whether it is appropriate to advance the project to the construction phase based on the project information and the Chapter 806 \$250 million annual debt limit.

After approval for construction, a project receives funding through general funds or bond issuances administered by Treasury. After Planning and Budget approves the funding through the issuance of the CO-2 and BEX (transaction to execute an appropriation change within the budget and financial systems), BCOM will issue a CO-8 (capital outlay form that provides approval to award the construction contract), which allows the capital project to move into the construction phase. The CO-2 process for construction is similar to the detailed planning process, except for one important difference. When General Services receives a CO-2 form related to construction, they apply the project to the GCPay graph, described below in the section entitled “GCPay and Tracking the \$250 Million Annual Limit,” to ensure the approval of the project does not cause the total approved projects’ cash flows to exceed the \$250 million annual limit established by the General Assembly. The Advisory Committee is responsible for monitoring this limit and is involved in moving projects into the construction phase, keeping this limit in mind.

GCPay and Tracking the \$250 Million Annual Limit

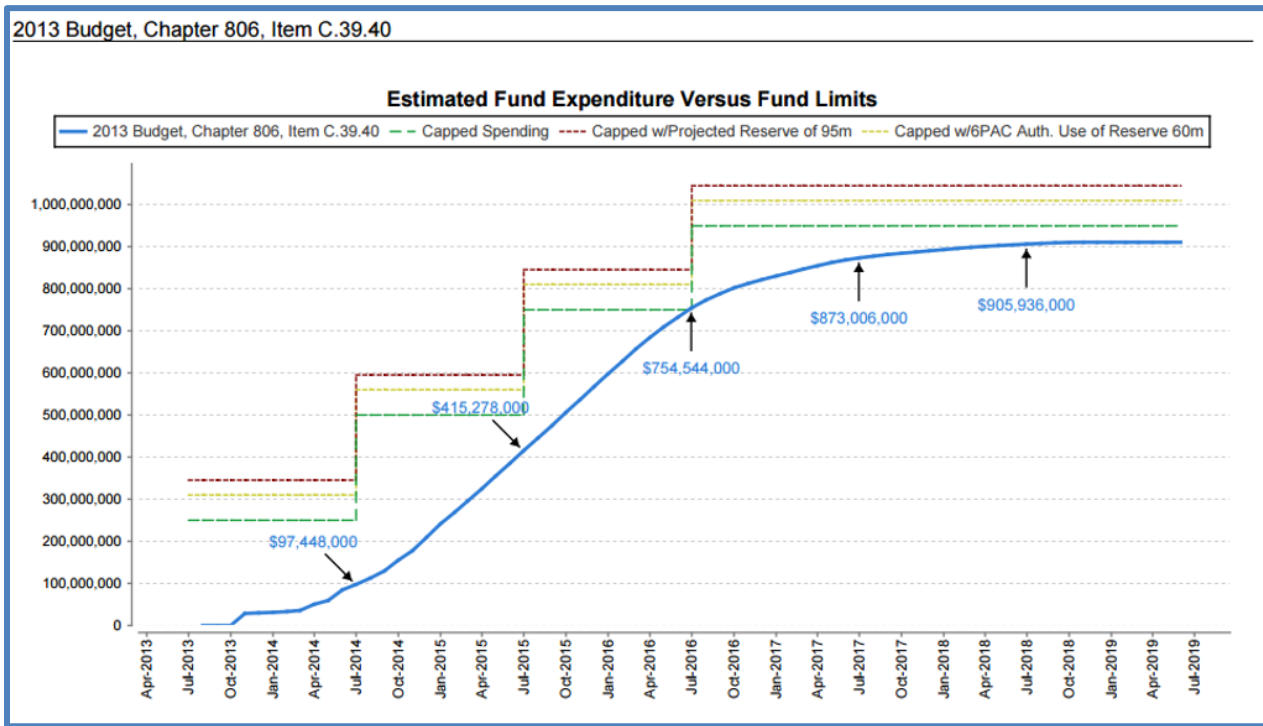
Chapter 806, Item C-39.40-A.8.a states that agencies and institutions included in this project pool will submit cash flow requirements for each project to the Directors of Planning and Budget and General Services, the chairmen of the House Appropriations and Senate Finance Committees, and the Advisory Committee. The cash flow projections must include quarterly cash needs to complete planning, working drawings, and construction to project completion. The Advisory Committee is responsible for reviewing the cash flow needs and ensuring that they do not approve projects for construction that will jeopardize staying under the \$250 million annual limit.

With General Services' assistance, the Advisory Committee uses GCPay to forecast cash flows for projects to ensure that the expenditures for approved projects will stay within the \$250 million annual limit. GCPay is a vendor that provides a web-based service to process payment applications and track expenditures for construction projects. GCPay uses the data about the project that the agency enters, such as project start and end dates and project cost, to forecast cash flows for each project.

General Services uses GCPay to create two future year cash flow graphs to monitor the \$250 million annual limit. The first graph (See Chart 3) includes Chapter 806 projects within the construction pool that are approved for construction and projects approved for detailed planning from the construction pool. The second graph (See Chart 4) includes all Chapter 806 projects within the construction pool. In fiscal year 2015, General Services started to track actual project expenditures based on data from the Commonwealth Accounting and Reporting System (CARS) in the projects approved graph (See Chart 5).

Chapter 806, Projects Approved as of June 30, 2016

Chart 3



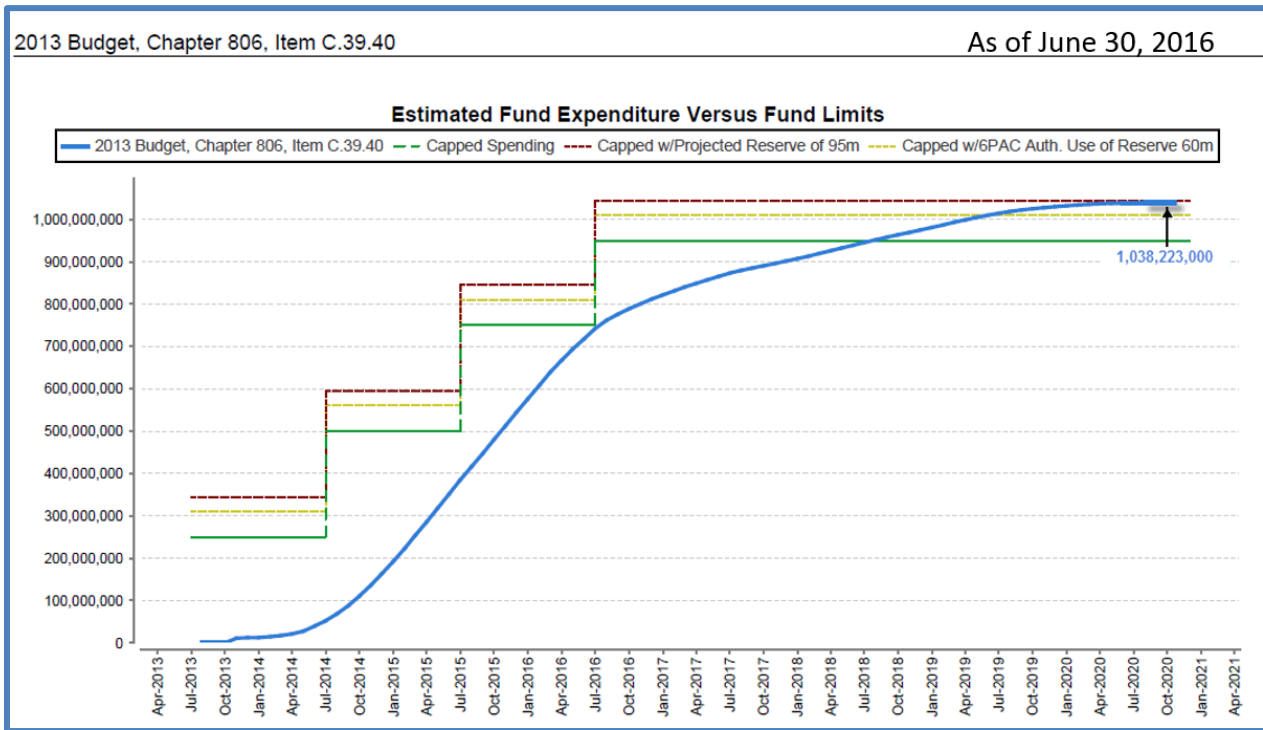
Source: GCPay Generated Report as shown in the June 30, 2016, State of the Pools Report

The approved projects graph (Chart 3) is more accurate and based on better estimates than the all projects graph (Chart 4) due to projects in Chart 3 completing the detailed planning process. The approved projects graph has more developed budgets being used to create the graph, including information pertaining to planning and construction, and more accurate start and end dates for particular phases of a project. This graph is the basis of the evaluation for compliance with the \$250 million limit for CO-2 approvals.

The all projects graph (Chart 4) is less accurate than the approved projects graph (Chart 3) because some projects have not been through the planning phases to refine the timing and costs. Chart 4 forecasts total estimated project costs over the entire bell curve, where Chart 3 uses information for planning and construction expenditures to more appropriately distribute the data within the graph. For example, Chart 3 shows estimated expenditures of \$754,544,000 at June 30, 2016, opposed to \$750,000,000 in Chart 4. One would expect the graph with all projects to have higher estimated expenditures at all points in the graph. However, Chart 4 is ignoring the assumption that planning money will be spent earlier in the process.

Chapter 806, Projection for All Projects as of June 30, 2016

Chart 4



Source: GCPay Generated Report as shown in the June 30, 2016, State of the Pools Report

Chapter 806 appropriated \$877.5 million for the projects listed in item C-39.40-A. In addition, Chapter 1 from the 2014 General Assembly session amended Chapter 806 to appropriate an additional \$4.8 million for the same projects. The total \$882.3 million is subject to the \$250 million annual limit. Chapter 806 also rescinded the purpose for \$35.2 million from Chapter 2 of the 2012 Special Session Acts of Assembly and reassigned those bond funds to support the projects in item C-39.40. Finally, Chapter 806 stated that the projects could also use any remaining bond authorizations in Chapter 1 of the 2008 Acts of Assembly and Chapter 874 of the 2010 Acts of Assembly. As of June 30, 2016, General Services estimates the savings from the projects under these bond authorizations at approximately \$60 million. The estimated savings increased from \$58.3 million to \$60 million between fiscal years 2015 and 2016. This \$60 million in savings could continue to fluctuate if the remaining projects supported by those bonds exceed or fall below original estimates. However, a large number of projects are already complete, so General Services does not expect a large decrease in these savings. The additional \$35.2 and \$60 million, totaling \$95 million, are not subject to the \$250 million annual limit. Therefore, General Services considers these funds to be a reserve when they are forecasting project expenditures to determine how close they are coming to the annual limit.

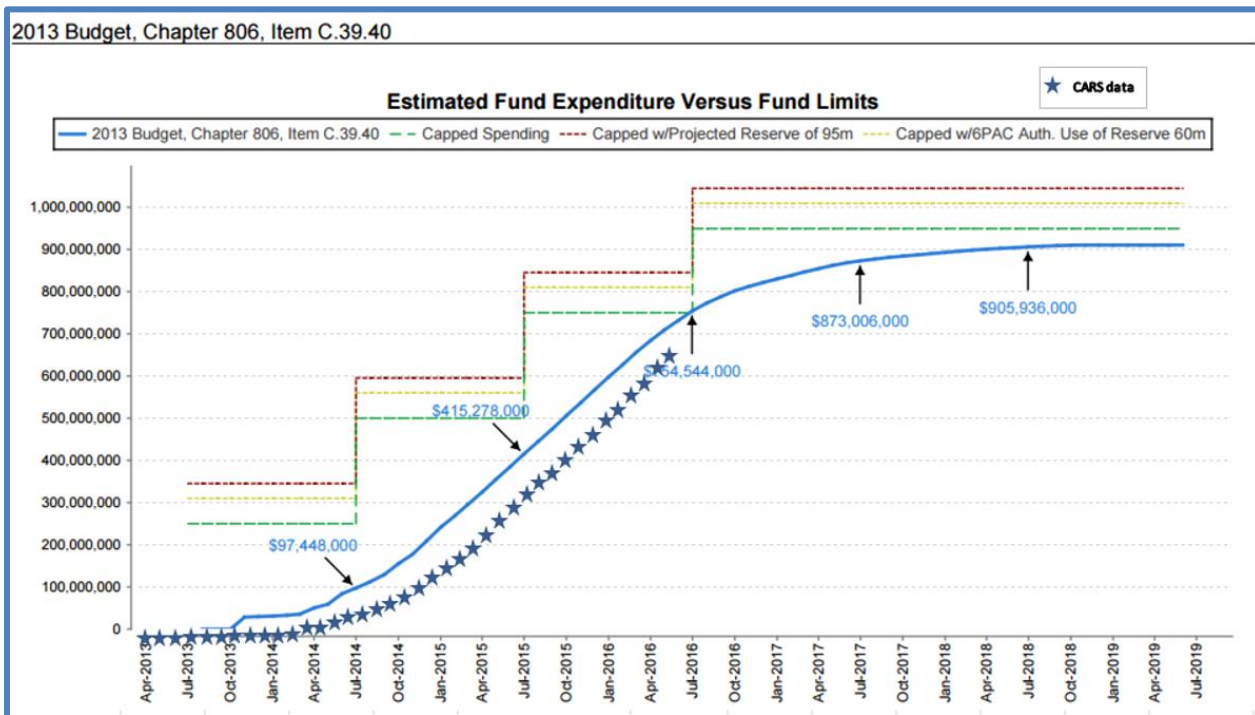
Chart 3 shows the estimated expenditures for all approved projects using information recorded in GCPay. The graph shows the current estimated Chapter 806 project expenditures per year (solid blue line) and the \$250 million yearly spending restriction set by the General Assembly (dotted green line.) The dotted yellow line is the cap including the \$60 million reserve that the

Advisory Committee has given blanket approval to use for any overage. The dotted red line represents the \$95 million reserve (\$60 million plus \$35 million) on top of the \$250 million yearly spending cap. It appears that the Chapter 806 projects approved through June 30, 2016, will not cause the estimated expenditures to exceed the spending cap put in place by the General Assembly beyond 2016. However, the GCPay estimated spend line exceeds the \$250 million limit in June of 2016, by \$4.5 million. This amount is still well within the \$60 million reserve that the Advisory Committee has authorized.

General Services tracks the actual expenditures compared to the GCPay estimated expenditures. As illustrated in Chart 5, the “blue stars” show the total actual Chapter 806 bond expenditures beginning in July 2013 and going through June 30, 2016, where they total \$650,149,901. In Chart 5, the solid blue line represents the GCPay estimated total project expenditures of \$754,544,000 as of June 30, 2016. This comparison of estimated expenditures to actuals demonstrates how conservative the GCPay graph is in forecasting expenditures; it also reflects the average three-month delay from when GCPay estimates the expenditure as obligated, and Treasury reimburses the agency, at their request, for the actual expense from bond appropriations in CARS. In reality, with the actual bond expenditures being significantly less than the forecast expenditures at any given point in time, project expenditures will shift down the graph into future years, which will cause actual expenditures to reach the spending limit later.

CARS vs. GCPay Expenditure Analysis (through June 30, 2016)

Chart 5



Note: Dates represent the beginning of the month (ex: as of July 1, 2016, GCPay estimates a cumulative spend of \$754.5M)

Source: GCPay Generated Report as shown in the June 30, 2016, State of the Pools Report

It is important to note that the GCPay estimation process is independent of the Planning and Budget draw schedule process that Treasury uses to create budgets and determine timing for planned bond issuances. Therefore, even if GCPay estimates are higher than actuals, they do not affect Treasury's decisions. When Treasury creates their forecast for future bond needs, they receive cash flow information from Planning and Budget, which agencies update annually or as needed. This separate process is necessary because Treasury has to consider cash flow needs for all capital projects not just Chapter 806 projects when determining the timing of bond issuances.

Chart 4 shows the big picture of the expenditures for all of the projects in Chapter 806. As seen in Chart 3 and 4, the last step of the \$250 million limit was reached at the start of fiscal year 2017, or July of 2016. Chart 4 also indicates that the pool is coming close to the maximum funding amount for all projects in October of 2020, including the additional \$95 million from projected savings from previous pools. This indicates that the Advisory Committee will need to keep an eye on the overall pool as time elapses. The Advisory Committee intends to evaluate the need for additional funding for this pool prior to the 2017 General Assembly session. By this time, most of the projects will be through the planning phase and the Advisory Committee will have accurate estimates to determine whether any additional funding is needed to complete the projects in the pool.

Cash Flow Related Delays

Chapter 806, Item C-39.40-A.12 requires the Auditor of Public Accounts to report on the adherence to the cash flow requirements for each project and any deviation in necessary project appropriation and allotment, which creates a delay in the progress of the projects. We reviewed and analyzed Chapter 806 projects for fiscal year 2016 in order to determine if there were any deviations or delays in the progress of authorized projects. We reviewed the roles of Treasury, General Services, Planning and Budget, and the Advisory Committee in the process to determine if any slowdowns occurred.

During fiscal year 2016, we did not find any instances where Treasury's role in the bond issuance and requisition process resulted in any delays in project funding for any Chapter 806 capital projects. Treasury appears to have an adequate process to budget for and determine the timing of bond issuances.

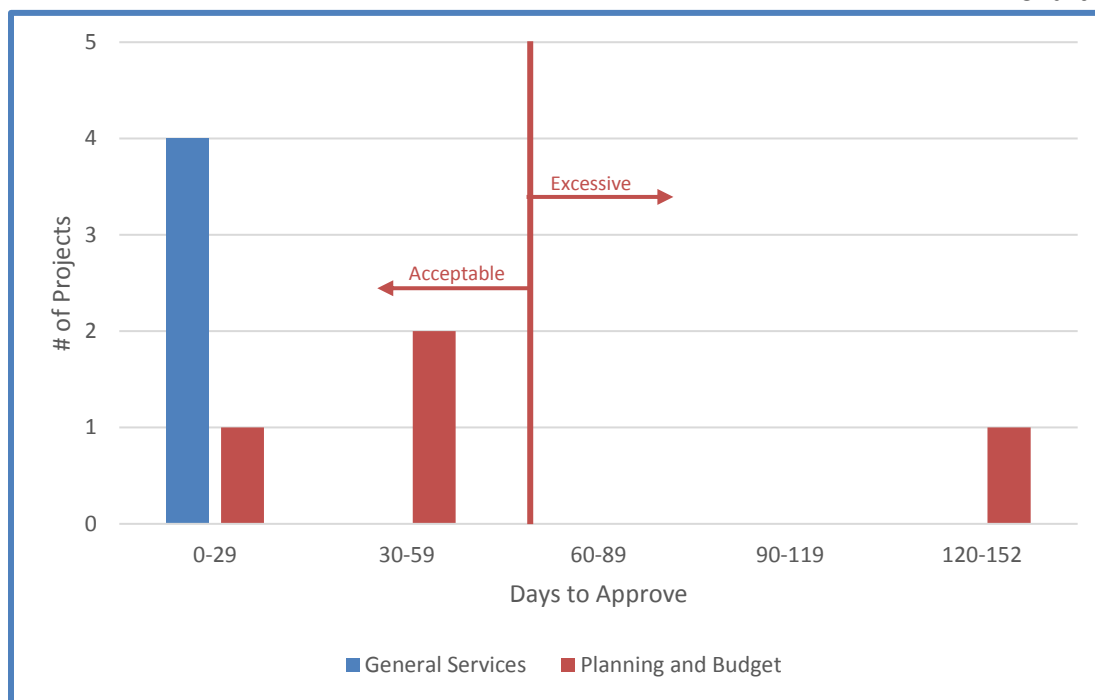
In addition, the Advisory Committee attempted to meet quarterly during fiscal year 2016. However, the Advisory Committee only met twice due to a weather cancellation for the third quarter and scheduling conflicts for the fourth quarter. The Advisory Committee did meet early in the first quarter of fiscal year 2017. The Advisory Committee has a process in place to advance projects to construction between quarterly meetings. As a result, the Advisory Committee did not cause any project delays.

When reviewing General Services and Planning and Budget's role in the capital project process, we analyzed the timing of CO-2s to determine if any delays occurred throughout the process. The CO-2 plays a time sensitive role in the process. The process begins with a CO-2 form, which authorizes funding for a project at the various phases including pre-planning, detailed planning, and construction. Both General Services and Planning and Budget approve the CO-2.

Charts 6 and 7 depict the pre-planning CO-2 and Detailed Planning CO-2 approvals by the number of days from the time General Services or Planning and Budget received the form until the respective agency approved it. The CO-2 is an important capital outlay form in the overall process, as it allows funding to pass to the agency for a construction project in the planning and construction phases. We determined that approval times of 60 days or longer were unreasonable.

CO-2 Pre-Planning Approval Times

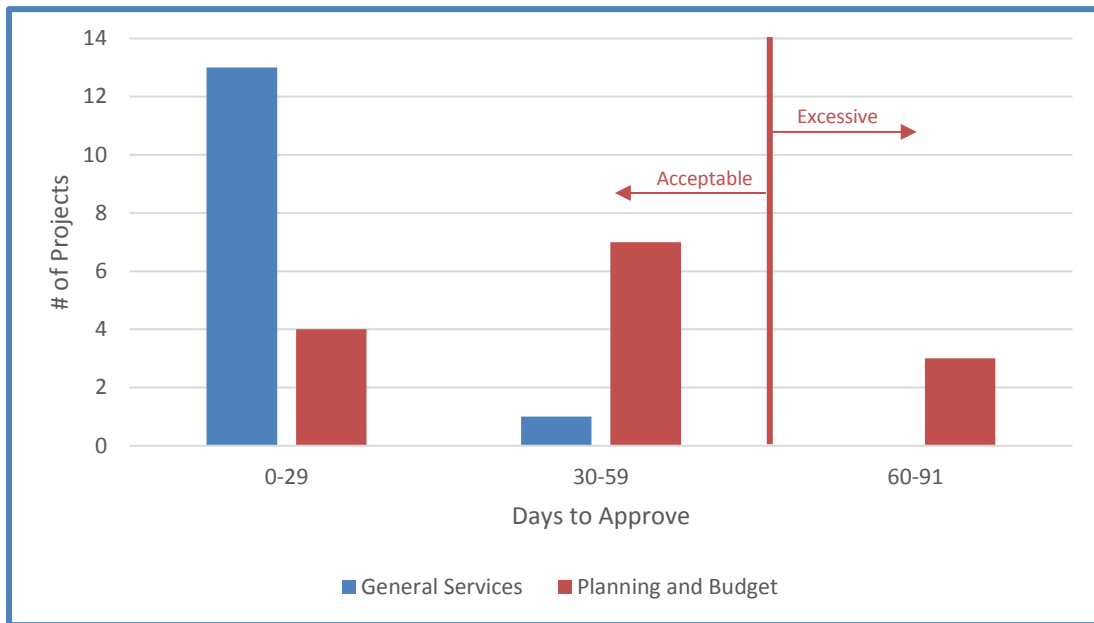
Chart 6



Source: Fiscal year 2016 CO-2 Forms from BITS for Chapter 806 projects

CO-2 Detailed Planning Approval Times

Chart 7



Source: Fiscal year 2016 CO-2 Forms from BITS for Chapter 806 projects

While reviewing General Services, we did not find any instances in delays in the processing of CO-2s for planning or detailed planning.

Planning and Budget had one out of four projects with approval times of 60 days or more for pre-planning, with approval times ranging from 11 days to 152 days. Planning and Budget had three out of fourteen projects with approval times of 60 days or more for detailed planning, with approval times ranging from zero to 91 days. Planning and Budget's processing time for CO-2s improved in fiscal year 2016 with only 20 percent of CO-2s delayed, while in fiscal year 2015, 53 percent of CO-2s processed by Planning and Budget for Chapter 806 projects had delays. There were multiple causes for these delays and some projects were delayed for multiple reasons.

- The preplanning CO-2 that took 152 days to approve was to construct a bioscience building at Blue Ridge Community College. This CO-2 was related to another CO-2 to transfer higher education operating funds to this project. There were not enough available higher education operating funds appropriated to transfer to the project. Therefore, Planning and Budget placed both CO-2s on hold until the funding was available. Once the funding was available, Planning and Budget approved both CO-2s so the planning for the project could proceed.
- The detailed planning CO-2 that took 91 days to approve was to construct a highway intersection at Powhatan State Park. The Department of Transportation agreed to oversee the construction. Time necessary to finalize negotiations

between the Departments of Transportation and Conservation and Recreation caused the delay. This was outside of Planning and Budget's control.

- Planning and Budget delayed approval of CO-2s due to staffing issues. At certain times of the year, Planning and Budget has to prioritize other activities over approving CO-2s, such as developing the budget and responding to requests and actions during the 2016 Session of the General Assembly.
- Some agencies did not submit a BEX timely to transfer the appropriation from the Central Capital Planning Fund to the agency project to support the CO-2 request. Planning and Budget cannot approve the CO-2 without a proper BEX. However, this was never the main cause for delays.

Observation

Agencies are not always timely in their submission to Planning and Budget of the BEX, which is necessary to transfer the appropriation from the Central Capital Planning Fund to the agency project to support the CO-2 request. Planning and Budget cannot approve the CO-2 without a proper BEX.

Recommendation #2

Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

Chapter 769 and Forward

Starting in fiscal year 2017, the Auditor of Public Accounts is required to report on the funding limits imposed in Chapter 769, enactment 10 and 11. The requirements within Chapter 769 are similar to Chapter 806, Item C-39.40 with regards to reporting on a yearly funding limit imposed on the total bond package of \$300 million a year.

In addition, enactment 11 of Chapter 769 requires the Governor to approve a decision brief that directs General Services to proceed with the Capitol Complex Infrastructure and Security project, which includes the sub-project New Construction of General Assembly Building before any funding can be released for certain projects within Chapter 769 for detailed planning and construction. This enactment further requires the Auditor of Public Accounts to monitor this compliance. Since spending of funds for capital projects within this chapter will occur during fiscal year 2017 and this requirement is a pre-requisite to such spending, the Auditor of Public Accounts will report on this requirement within this report.

We determined that the Governor approved a decision brief related to the Capital Complex project and this requirement is satisfied. Therefore, funding for the detailed planning and construction for the other projects in Chapter 769 can proceed.

The Chapter 806, Item C-39.40 funding limit of \$250 million reached its final step in July of 2016. Therefore, we will consider the reporting on cash flow delays within this Chapter to be complete, and going forward, the Auditor of Public Accounts will begin to report on the funding limit set out within Chapter 769.



Martha S. Mavredes, CPA
Auditor of Public Accounts

Commonwealth of Virginia

Auditor of Public Accounts

P.O. Box 1295
Richmond, Virginia 23218

December 7, 2016

The Honorable Terence R. McAuliffe
Governor of Virginia

The Honorable Robert D. Orrock, Sr.,
Chairman, Joint Legislative Audit
and Review Commission

We have audited the capital project cash flow processes and are pleased to submit our report entitled **Review of Capital Project Cash Flow Requirements**. We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Audit Objectives

- Obtain a thorough understanding of any changes in the capital project cash flow requirements process and determine whether the changes are effective.
- Determine whether any deviation in necessary project appropriation and allotment occurred, which created a delay in the progress of projects.
- Determine if the Advisory Committee is meeting quarterly to evaluate capital projects.
- Determine if Planning and Budget, General Services, and the Treasury have changed their monitoring process of the \$250 million annual debt limit for capital projects set forth in Chapter 806, Item C-39.40 and whether the Commonwealth has stayed within the limit.

- Determine if Planning and Budget is timely reimbursing the Central Capital Planning Fund and agencies and institutions for any amounts provided for and expenditures incurred for project planning for approved projects.
- Determine if Accounts is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely.

Conclusion

The capital project cash flow requirements process is effective. The only project funded by the Central Capital Planning Fund was a Chapter 2 project, which is outside the scope of our audit; therefore, we did not review its timing. Planning and Budget's processing time for CO-2s improved in fiscal year 2016 with only 20 percent of CO-2s taking longer than 60 days, while in fiscal year 2015, 53 percent of CO-2s processed for Chapter 806 projects took longer than 60 days. The Advisory Committee did not meet quarterly during fiscal year 2017; however, there is a process in place to advance projects between meetings that prevented any delays. Planning and Budget, General Services, and Treasury are monitoring the \$250 million annual debt limit, and to date Chapter 806 capital project expenditures have not exceeded the limit. Accounts is transferring planning money from bond funded projects back to the Central Capital Planning Fund timely based on Planning and Budget's request.

We had the following recommendations:

- To determine if the Central Capital Planning Fund is currently funded at a level that can handle the future volume of capital projects, Planning and Budget should do an analysis of upcoming projects that will need planning funds and their estimated timing to determine if there is adequate funding available within the Central Capital Planning Fund. If the analysis determines funding to be inadequate, Planning and Budget could make a recommendation to the General Assembly for how much the fund needs to prevent delays due to the availability of planning funds.
- Agencies need to ensure that they process the BEX (transaction to execute an appropriation change within the budget and financial systems) to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

Exit Conference and Report Distribution

We discussed this report with General Services, Planning and Budget, and Treasury. In general, management of all three agencies agreed with the recommendations and chose not to provide a formal response for inclusion in the report.

This report is intended for the information and use of the Governor and General Assembly, management, and the citizens of the Commonwealth of Virginia and is a public record.

AUDITOR OF PUBLIC ACCOUNTS

DBC/clj

APPENDIX A
CHAPTER 806 PROJECT STATUS
AS OF JUNE 30, 2016

Pre-Planning Pool			
Agency Name	Project Title	Project #	Phase
VCCS	Renovate Godwin Building, Annandale Campus, Northern Virginia	18087	Not Started
DGS	Renovate Supreme Court Interior	17490	Schematic
DGS	Capitol Complex Infrastructure and Security	18081	Schematic
UVA	Renovate Gilmer Hall and Chemistry Building	18082	Schematic
CNU	Construct and Renovate Fine Arts and Rehearsal Space	18086	Schematic
LU	Construct New Admissions Office	18083	Preliminary Planning
LU	Construct New Academic Building	18084	Preliminary Planning
VIMS	Construct Facilities Management Building	18088	Preliminary Planning
VPISU CES	Improve Kentland Facilities	17830	Construction
JMU	Renovate Madison Hall	18085	Construction

Detailed Planning Pool			
Agency Name	Project Title	Project #	Phase
DGS	Morson Row Renovation	18064	Not Started
VCCS	Construct Phase VII Academic Building, Annandale Campus, Northern Virginia	18075	Not Started
ODU	Construct Chemistry Building	18068	Schematic
FCM	Construct Early American Industry Exhibit	18073	Schematic
VCCS	Renovate Engineering and Industrial Technology Building, Danville	18077	Schematic
VCCS	Construct Bioscience Building, Blue Ridge	18078	Schematic
DBHDS	Replace Facility Roofs and Building Envelopes	18153	Schematic
UMW	Construct Jepson Science Center Addition	18066	Preliminary Planning
VSDB	Renovate Main Hall	18069	Preliminary Planning
CNU	Construct Library, Phase II	18074	Preliminary Planning
VCCS	Replace Academic and Administration Building, Eastern Shore	18076	Preliminary Planning
VCCS	Construct Student Service and Learning Resources Center, Christanna Campus, Southside VA	18079	Preliminary Planning
RU	Renovate Whitt Hall	18067	Working Drawings

Detailed Planning Pool (continued)			
Agency Name	Project Title	Project #	Phase
VCU	Renovate Sanger Hall, Phase II	18070	Working Drawings
VCU	Renovate Raleigh Building	18071	Working Drawings
VPISU	Renovate/Renew Academic Buildings	18065	Construction

Construction Pool			
Agency Name	Project Title	Project #	Phase
GMU	Construct Life Sciences Building, Prince William (Construct Bull Run Hall IIIB Addition)	18000	Not Started
DVS	Hampton Roads Veterans Care Center	17957	Schematic
VCCS	Renovate Reynolds Academic Building, Loudoun Campus, Northern Virginia	17989	Schematic
VCCS	Expand Workforce Development Center, Danville	18042	Schematic
DVS	Northern Virginia Veterans Care Center	18212	Schematic
WWRC	Renovate Dining Hall and Activities Building, Phase II	17975	Working Drawings
VCCS	Renovate Anderson Hall, Virginia Western	17991	Working Drawings
VIMS	Construct Consolidated Scientific Research Facility	17993	Working Drawings
DCR	Widewater State Park, Phase I A	18056	Working Drawings
VMFA	Renovate Robinson House	18061	Working Drawings
DOC	Richmond P & P	18063	Working Drawings
DGS	Renovation of the 9th Street Office Building	17091	Construction
DBHDS	Western State Hospital Supplement	17276	Construction
VSU	Renovate Lockett Hall	17511	Construction
DCR	Construct Powhatan State Park, Phase I	17589	Construction
CNU	Construct Student Success Center	17872	Construction
ODU	Construct New School of Education	17875	Construction
DOC	Construct James River Water Line	17913	Construction
UVA	Renovate the Rotunda	17915	Construction
SMV	Construct Event Space and Upgrade Museum Exhibits	17974	Construction
WWRC	Renovate Anderson Vocational Training Building, Phase I	17976	Construction
DFS	Expand Western Virginia Forensic Laboratory and Office of the Chief Medical Examiner Facility	17978	Construction
VSU	Erosion and Sediment Control Storm Water Master Plan / Retention Pond	17980	Construction

Construction Pool (continued)			
Agency Name	Project Title	Project #	Phase
NSU	Replace Brown Hall	17981	Construction
LU	Construct Student Success Center	17982	Construction
UMW	Renovate Mercer and Woodard Halls	17983	Construction
RU	Construct New Academic Building, Phase I and II	17984	Construction
RBC	Renovate Ernst Hall	17985	Construction
VCCS	Renovate Main Hall, Middletown Campus, Lord Fairfax	17986	Construction
VCCS	Construct New Classroom and Administration Building, Blue Ridge	17987	Construction
VCCS	Renovate Building B, Parham Road Campus, J. Sargeant Reynolds	17988	Construction
VCCS	Renovate Bayside Building, Virginia Beach Campus, Tidewater	17990	Construction
VCCS	Construct Phase III Academic Building, Midlothian Campus, John Tyler	17992	Construction
CWM	Renovate Tyler Hall	17994	Construction
VPISU	Construct Classroom Building	17995	Construction
VMI	Construct Corps Physical Training Facilities, Phase I and Phase II	17996	Construction
JMU	Construct Health and Engineering Academic Facility (East Wing Hospital)	17997	Construction
VCU	Construct and Renovate Information Commons and Libraries	17998	Construction
GMU	Construct Academic VII / Research III, Phase I	17999	Construction
GMU	Central Utility Plant	18043	Construction
VSP	Area Offices 14, 16 and 26, Only Phase 1 of 3	18054	Construction
DCR	Construct Highway Intersection, Powhatan State Park	18055	Construction
DCR	New Cabins Various State Parks	18057	Construction
LOV	State Library Improvements for Storage, Security and IT	18058	Construction
VSU	Water Storage Tank and Campus Water Distribution Piping, Phases 1-3	18059	Construction
VCU	Replacement Facility for the Virginia Treatment Center for Children	18060	Construction
VCCS	Renovate Sowder Hall, Fauquier Campus, Lord Fairfax	18062	Construction
JYF	Yorktown Outside Areas, Signage & Amenities	17977	Complete

Legend

Schematic:	Undergoing schematic design development and cost review.
Preliminary planning:	Undergoing preliminary design development and cost review; schematic cost review report issued.
Working drawings:	Undergoing working drawings development; preliminary cost review and detailed planning complete (CO-2 forwarded to Planning and Budget to BCOM).
Construction:	Approved for construction contract award via BCOM-approved CO-8, approval to award construction contract; or if funding is supplemental/Furniture, fixtures, and equipment only (for which no CO-8 is required).

APPENDIX B

ACRONYMS FOR AGENCIES AND INSTITUTIONS

CAPITAL OUTLAY FORMS

Acronym	Agency/Institution
CNU	Christopher Newport University
CWM	College of William and Mary
DBHDS	Department of Behavioral Health and Developmental Services
DCR	Department of Conservation and Recreation
DGS	Department of General Services
DFS	Department of Forensic Science
DOC	Department of Corrections
DVS	Department of Veterans Services
VPISU CES	VPISU Cooperative Extension Service
FCM	Frontier Culture Museum
GMU	George Mason University
JMU	James Madison University
JYF	Jamestown-Yorktown Foundation
LU	Longwood University
LOV	Library of Virginia
NSU	Norfolk State University
ODU	Old Dominion University
RBC	Richard Bland College
RU	Radford University
SMV	Science Museum of Virginia
UMW	University of Mary Washington
UVA	University of Virginia
VCCS	Virginia Community College System
VCU	Virginia Commonwealth University
VSDB	Virginia School for the Deaf and Blind
VIMS	Virginia Institute of Marine Science
VMI	Virginia Military Institute
VMFA	Virginia Museum of Fine Arts
VPISU	Virginia Tech
VSP	Virginia State Police
VSU	Virginia State University
WWRC	Woodrow Wilson Rehabilitation Center

Acronym	Capital Outlay Form
CO-2	Authority to Initiate Capital Outlay Project
CO-8	Approval to Award Construction Contract

APPENDIX C

Recommendations Overview

This appendix will review recommendations made in the prior two reports and their current status.

Recommendations from Fiscal Year 2014 Report

Recommendation #1: The General Assembly may wish to amend the process to consolidate the planning pools and have one planning pool and one construction pool. Then the General Assembly could empower the Advisory Committee to move projects through the two planning phases (Pre-planning and Detailed Planning) and use funds from the Central Capital Planning Fund for planning these projects. This could result in cost savings for the Commonwealth through timelier project schedules while preserving the original intent of the pooled process to provide the General Assembly the opportunity to evaluate the feasibility and cost of projects before approving them for construction.

Status: *The General Assembly did not make any changes to the pooled process in subsequent sessions. This recommendation was dropped.*

Recommendation #2: Planning and Budget should work with the Department of Accounts to understand the Central Capital Planning Fund reimbursement and transfer process and develop a time schedule in which it is reasonable for these transactions to occur to ensure that new projects receive planning funds timely.

Status: *The process between Planning and Budget and Accounts improved in fiscal year 2014, therefore this recommendation was resolved.*

Recommendation #3: The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.

Status: *This recommendation was re-issued in the fiscal year 2015 report as Recommendation #1. See below.*

Recommendation #4: The Advisory Committee should instruct General Services to develop a process to evaluate the GCPay Approved Projects graphs against actual expenditures to prevent projects from being held up by the Advisory Committee.

Status: *General Services reviewed actual expenditure data compared to the GCPay graph and added expenditure data to the GCPay Graphs they produce for the Advisory Committee. This recommendation was resolved in fiscal year 2015.*

Recommendation #5: The potential exists that at some point in the future, there may not be enough funds allocated to complete all of the Chapter 806 projects, and the General Assembly may wish to consider adding more funds to the Chapter 806 construction pool.

Status: *Other means of funding projects within Chapter 806, such as savings from previous capital outlay pools, has been established. This recommendation was resolved in fiscal year 2015.*

Recommendation #6: The General Assembly may wish to consider eliminating the current \$250-million limit over Chapter 806 capital projects.

Status: *The General Assembly did not make any changes to the pooled process in subsequent sessions. This recommendation was dropped.*

Recommendation #7: If the General Assembly keeps the \$250 million limit, they may wish to update the language in order to better align their intent with how the Advisory Committee and Treasury implemented this requirement.

Status: *The General Assembly did not make any changes to the pooled process in subsequent sessions. This recommendation was dropped.*

Recommendation #8: Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

Status: *This recommendation was re-issued in the fiscal year 2015 report as Recommendation #3. See below.*

Recommendation #9: To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their responsibilities timely. This could include expanding their budget staff permanently or temporarily during certain times of the year. In addition, Planning and Budget should consider establishing pre-determined time frames in which certain transactions or approvals will occur.

Status: *This recommendation was re-issued in the fiscal year 2015 report as Recommendation #2. See below.*

Recommendations from Fiscal Year 2015 Report

Recommendation #1 (Fiscal Year 2014 Recommendation #3):

The General Assembly may wish to consider infusing additional funds into the Central Capital Planning Fund to prevent future delays in the start of pre-planning and detailed planning of projects.

Status: In fiscal year 2015, the limited funds in the Central Capital Planning Fund continued to cause project delays. In fiscal year 2016, the majority of Chapter 806 projects had entered or completed the planning phase, and there were no Chapter 806 projects funded by the Central Capital Planning Fund. However, there are several other large capital outlay packages outside of Chapter 806 (Chapter 1, 2, 665, and 769) with projects that require planning funds. Therefore, the fiscal year 2016 report includes Recommendation #1 addressing the need for Planning and Budget to determine if there are adequate funds in the Central Capital Planning Fund for future projects.

Recommendation #2 (Fiscal Year 2015 Recommendation #9):

To prevent delays in the progress of capital projects in the future, Planning and Budget should consider options as to how they can accomplish all of their capital project related responsibilities timely. In addition, Planning and Budget could encourage agencies to submit CO-2s for approval outside of the budget development season and General Assembly sessions.

Status: Planning and Budget's processing time for CO-2s improved in fiscal year 2016. Planning and Budget prioritizes tasks during budget development season and the General Assembly sessions, making due with the resources they have available. This recommendation was dropped.

Recommendation #3 (Fiscal Year 2015 Recommendation #8):

Agencies need to ensure that they process the BEX to support the CO-2 timely. Because responsibility for these two functions at the agencies often is divided between the budget section and the capital outlay section, proper coordination of the timing of these two forms at the agency level is essential.

Status: The original report showed that agencies were not submitting BEX's and CO-2s timely, which caused delays in several cases. In fiscal year 2015, agencies were still not submitting BEX's timely with CO-2s, which caused delays. Planning and Budget worked with agencies to make them aware of the need to process the BEX and CO-2 at the same time. In fiscal year 2016, agencies showed progress, with shorter delays between the BEX submission and CO-2 submission. However, there is still room for improvement, so fiscal year 2016 report will include Recommendation #2 to address this issue.

REVIEW OF CAPITAL PROJECT CASH FLOW REQUIREMENTS

(as of June 30, 2016)

DEPARTMENT OF GENERAL SERVICES

Christopher L. Beschler, Director

DEPARTMENT OF PLANNING AND BUDGET

Daniel S. Timberlake, Director

DEPARTMENT OF THE TREASURY

Manju S. Ganeriwala, Treasurer

SIX-YEAR CAPITAL OUTLAY ADVISORY COMMITTEE

Richard D. Brown
Secretary of Finance

Daniel S. Timberlake
Director, Department of Planning and Budget

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Director, Department of General Services

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Executive Director, State Council of Higher Education for Virginia

Robert P. Vaughn
Staff Director, House Appropriations Committee

Elizabeth B. Daley
Staff Director, Senate Finance Committee